

**REPORT OF THE AUDIT OF THE  
MCCRACKEN COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2014**



**MIKE HARMON  
AUDITOR OF PUBLIC ACCOUNTS  
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**EXECUTIVE SUMMARY**  
**AUDIT OF THE**  
**MCCRACKEN COUNTY FISCAL COURT**

**June 30, 2014**

The Auditor of Public Accounts has completed the audit of the McCracken County Fiscal Court for fiscal year ended June 30, 2014.

We have issued an unmodified opinion, based on our audit on the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of McCracken County, Kentucky. In accordance with OMB Circular A-133, we have issued an unmodified opinion on the compliance requirements that are applicable to McCracken County's major federal program: Hazard Mitigation Grant Program (CFDA #97.039).

**Financial Condition:**

The McCracken County Fiscal Court had total receipts of \$25,902,579 and disbursements of \$36,294,775 in fiscal year 2014. This resulted in a total ending fund balance of \$7,599,090, which is decrease of \$6,109,970 from the prior year.

**Report Comments:**

- 2014-001    Material Weaknesses Over Cash Resulted In Unauthorized Cash Transfers
- 2014-002    Decentralized Receipts Were Not Properly Turned Over To The County Treasurer
- 2014-003    Weak Internal Controls Over Debt And Debt Service Resulted In The Misstatement Of Outstanding Debt Balances
- 2014-004    Weak Internal Controls Over Capital Assets Resulted In the Omission Of Capital Asset Additions From The County's Schedule Of Capital Assets
- 2014-005    The McCracken County Jailer Failed To Implement Internal Controls Over The Service Organization Handling Inmate Funds
- 2014-006    The McCracken County Fiscal Court Should Improve Internal Controls Over Payroll And Payroll Related Payments
- 2014-007    Weak Internal Controls Over Credit Card Disbursements Resulted In Late Fees And Potential Misuse

**Deposits:**

The    Fiscal    Court's    deposits    were    insured    and    collateralized    by    bank    securities.



## CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT.....	1
MCCRACKEN COUNTY OFFICIALS .....	4
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - REGULATORY BASIS .....	6
NOTES TO FINANCIAL STATEMENT .....	11
BUDGETARY COMPARISON SCHEDULES .....	27
NOTES TO REGULATORY SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULES .....	36
SCHEDULE OF CAPITAL ASSETS .....	39
NOTES TO REGULATORY SUPPLEMENTARY INFORMATION - SCHEDULE OF CAPITAL ASSETS .....	40
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS .....	43
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS .....	44
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS .....	47
REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 .....	51
SCHEDULE OF FINDINGS AND QUESTIONED COSTS .....	55
APPENDIX A:	
CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM	





**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Matthew G. Bevin, Governor  
William M. Landrum III, Secretary  
Finance and Administration Cabinet  
Honorable Bob Leeper, McCracken County Judge/Executive  
Honorable Van Newberry, Former McCracken County Judge/Executive  
Members of the McCracken County Fiscal Court

Independent Auditor's Report

**Report on the Financial Statement**

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of McCracken County, Kentucky, for the year ended June 30, 2014, and the related notes to the financial statement.

**Management's Responsibility for the Financial Statement**

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. This includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Audit Guide for Fiscal Court Audits* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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### **Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles**

As described more fully in Note 1, the financial statement is prepared by McCracken County, Kentucky on the basis of the accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

### **Adverse Opinion on U.S. Generally Accepted Accounting Principles**

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of McCracken County, Kentucky as of June 30, 2014, or changes in financial position or cash flows thereof for the year then ended.

### **Opinion on Regulatory Basis of Accounting**

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balances of McCracken County, Kentucky as of June 30, 2014, and its cash receipts and disbursements, for the year then ended, in accordance with the accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

### **Other Matters**

#### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of McCracken County, Kentucky. The budgetary comparison schedules and capital asset schedule are presented for purposes of additional analysis and are not a required part of the financial statement, however they are required to be presented in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the financial statement. The budgetary comparison schedules, capital asset schedule, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedules, capital asset schedule, and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statement.



To the People of Kentucky  
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### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2015 on our consideration of McCracken County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying schedule of findings and questioned costs included herein, which discusses the following report comments:

- 2014-001 Material Weaknesses Over Cash Resulted In Unauthorized Cash Transfers
- 2014-002 Decentralized Receipts Were Not Properly Turned Over To The County Treasurer
- 2014-003 Weak Internal Controls Over Debt And Debt Service Resulted In The Misstatement Of Outstanding Debt Balances
- 2014-004 Weak Internal Controls Over Capital Assets Resulted In the Omission Of Capital Asset Additions From The County's Schedule Of Capital Assets
- 2014-005 The McCracken County Jailer Failed To Implement Internal Controls Over The Service Organization Handling Inmate Funds
- 2014-006 The McCracken County Fiscal Court Should Improve Internal Controls Over Payroll And Payroll Related Payments
- 2014-007 Weak Internal Controls Over Credit Card Disbursements Resulted In Late Fees And Potential Misuse

Respectfully submitted,



Mike Harmon  
Auditor of Public Accounts

December 16, 2015

MCCRACKEN COUNTY OFFICIALS

For The Year Ended June 30, 2014

**Fiscal Court Members:**

Van Newberry	County Judge/Executive
Jerry Beyer	Commissioner
Ronnie Freeman	Commissioner
Zana Renfro	Commissioner

**Other Elected Officials:**

Michael Murphy	County Attorney
Bill Adams	Jailer
Jeff Jerrell	County Clerk
Glenda Ransom	Circuit Court Clerk
Jon Hayden	Sheriff
Nancy Bock	Property Valuation Administrator
Dan Sims	Coroner

**Appointed Personnel:**

Doug Harnice	Deputy Judge Executive
Angie Brown	County Treasurer
Perry Mason	Road Supervisor

**MCCRACKEN COUNTY**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES**  
**IN FUND BALANCES - REGULATORY BASIS**

**For The Year Ended June 30, 2014**

**MCCRACKEN COUNTY**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES**  
**IN FUND BALANCES - REGULATORY BASIS**

**For The Year Ended June 30, 2014**

	<b>Budgeted Funds</b>		
	<b>General Fund</b>	<b>Road Fund</b>	<b>Jail Fund</b>
<b>RECEIPTS</b>			
Taxes	\$ 10,824,385	\$	\$
In Lieu Tax Payments	1,105,678		
Excess Fees			
Licenses and Permits	353,704		
Intergovernmental	3,161,371	1,824,748	2,638,104
Charges for Services	52,479		180,682
Miscellaneous	666,187		272,294
Interest	19,634		
Total Receipts	<u>16,183,438</u>	<u>1,824,748</u>	<u>3,091,080</u>
<b>DISBURSEMENTS</b>			
General Government	4,246,686		
Protection to Persons and Property	1,164,664		4,571,073
General Health and Sanitation	407,283		
Social Services	151,336		
Recreation and Culture	196,291		
Roads		2,015,560	
Airports			
Bus Services	9,000		
Debt Service	883,071		
Capital Projects	9,395,582	19,546	
Administration	<u>2,992,415</u>	<u>504,439</u>	<u>1,621,459</u>
Total Disbursements	<u>19,446,328</u>	<u>2,539,545</u>	<u>6,192,532</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(3,262,890)</u>	<u>(714,797)</u>	<u>(3,101,452)</u>
<b>Other Adjustments to Cash (Uses)</b>			
Bond Proceeds			
Bond Issuance Costs			
Bonds Refunded			
Net Premium (Discount) on Bond Issuance			
Transfers From Other Funds	9,461,780	714,697	3,101,452
Transfers To Other Funds	<u>(6,949,716)</u>		
Total Other Adjustments to Cash (Uses)	<u>2,512,064</u>	<u>714,697</u>	<u>3,101,452</u>
Net Change in Fund Balance	(750,826)	(100)	
Fund Balance - Beginning (Restated)	<u>6,429,620</u>	<u>100</u>	
Fund Balance - Ending	<u>\$ 5,678,794</u>	<u>\$ 0</u>	<u>\$ 0</u>
<b>Composition of Fund Balance</b>			
Bank Balance	\$ 5,706,126	\$ 6,807	\$ 25,623
Less: Outstanding Checks	<u>(27,332)</u>	<u>(6,807)</u>	<u>(25,623)</u>
Fund Balance - Ending	<u>\$ 5,678,794</u>	<u>\$ 0</u>	<u>\$ 0</u>

The accompanying notes are an integral part of the financial statement.

**MCCRACKEN COUNTY**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES**  
**IN FUND BALANCES - REGULATORY BASIS**  
**For The Year Ended June 30, 2014**  
**(Continued)**

<b>Budgeted Funds</b>					
<b>Local Government Economic Assistance Fund</b>	<b>State Grant Fund</b>	<b>Federal Grant Fund</b>	<b>Sheriff Fund</b>	<b>Juvenile Justice Fund</b>	<b>Transient Room Tax Fund</b>
\$	\$	\$	\$	\$	\$ 1,772,922
21,528	499,097	108,758	1,613,154		
					358
21,528	499,097	108,758	1,613,154		1,773,280
			2,563,357		
				76,589	
	742,583	38,519			1,172,749
					581,698
	744		1,401,596		
	743,327	38,519	3,964,953	76,589	1,754,447
21,528	(244,230)	70,239	(2,351,799)	(76,589)	18,833
			2,351,799	76,589	
			2,351,799	76,589	
21,528	(244,230)	70,239			18,833
203,758	371,731	470,978			264,231
\$ 225,286	\$ 127,501	\$ 541,217	\$ 0	\$ 0	\$ 283,064
\$ 225,286	\$ 127,501	\$ 541,217	\$ 4,937 (4,937)	\$	\$ 283,064
\$ 225,286	\$ 127,501	\$ 541,217	\$ 0	\$ 0	\$ 283,064

The accompanying notes are an integral part of the financial statement.

**MCCRACKEN COUNTY**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES**  
**IN FUND BALANCES - REGULATORY BASIS**  
**For The Year Ended June 30, 2014**  
**(Continued)**

	<b>Unbudgeted Funds</b>		
	<b>Public Properties Corporation Fund</b>	<b>Jail Commissary Fund</b>	<b>County Bond Debt Service Fund</b>
<b>RECEIPTS</b>			
Taxes	\$	\$	\$
In Lieu Tax Payments			
Excess Fees			
Licenses and Permits			
Intergovernmental	214,056		326,307
Charges for Services			
Miscellaneous		100,076	
Interest	1	119	1
Total Receipts	<u>214,057</u>	<u>100,195</u>	<u>326,308</u>
<b>DISBURSEMENTS</b>			
General Government			
Protection to Persons and Property			
General Health and Sanitation			
Social Services			
Recreation and Culture		87,888	
Roads			
Airports			
Bus Services			
Debt Service	453,587		798,512
Capital Projects			
Administration			
Total Disbursements	<u>453,587</u>	<u>87,888</u>	<u>798,512</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(239,530)</u>	<u>12,307</u>	<u>(472,204)</u>
<b>Other Adjustments to Cash (Uses)</b>			
Bond Proceeds	3,165,000		4,401,700
Bond Issuance Costs	(27,860)		(74,557)
Bonds Refunded	(3,099,423)		
Net Premium (Discount) on Bond Issuance	(33,747)		(48,887)
Transfers From Other Funds	239,531		465,648
Transfers To Other Funds			(4,300,000)
Total Other Adjustments to Cash (Uses)	<u>243,501</u>	<u></u>	<u>443,904</u>
Net Change in Fund Balance	3,971	12,307	(28,300)
Fund Balance - Beginning (Restated)		135,614	28,300
Fund Balance - Ending	<u>\$ 3,971</u>	<u>\$ 147,921</u>	<u>\$ 0</u>
<b>Composition of Fund Balance</b>			
Bank Balance	\$ 3,971	\$ 147,921	\$
Less: Outstanding Checks			
Fund Balance - Ending	<u>\$ 3,971</u>	<u>\$ 147,921</u>	<u>\$ 0</u>

The accompanying notes are an integral part of the financial statement.

**MCCRACKEN COUNTY**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES**  
**IN FUND BALANCES - REGULATORY BASIS**  
**For The Year Ended June 30, 2014**  
**(Continued)**

<b>Unbudgeted Funds</b>				
<b>Construction Projects Fund</b>	<b>Planning Commission Fund</b>	<b>Unclaimed Fund</b>	<b>Car Rental Tax Fund</b>	<b>Total Funds</b>
\$	\$	\$	\$ 118,455	\$ 12,715,762
				1,105,678
	20,000			20,000
				353,704
				10,407,123
	5,510			238,671
		2,574		1,041,131
348		36	13	20,510
348	25,510	2,610	118,468	25,902,579
	38,548			6,848,591
				5,812,326
				407,283
				932,438
				1,456,928
				2,015,560
			160,000	160,000
				9,000
				2,716,868
				9,415,128
				6,520,653
	38,548		160,000	36,294,775
348	(13,038)	2,610	(41,532)	(10,392,196)
				7,566,700
				(102,417)
				(3,099,423)
				(82,634)
4,300,000				20,711,496
(9,397,013)		(64,767)		(20,711,496)
(5,097,013)		(64,767)		4,282,226
(5,096,665)	(13,038)	(62,157)	(41,532)	(6,109,970)
5,620,519	13,561	92,147	78,501	13,709,060
\$ 523,854	\$ 523	\$ 29,990	\$ 36,969	\$ 7,599,090
\$ 523,854	\$ 523	\$ 29,990	\$ 36,969	\$ 7,663,789
				(64,699)
\$ 523,854	\$ 523	\$ 29,990	\$ 36,969	\$ 7,599,090

The accompanying notes are an integral part of the financial statement.

**INDEX FOR NOTES  
TO THE FINANCIAL STATEMENT**

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES .....	11
NOTE 2.	DEPOSITS.....	14
NOTE 3.	TRANSFERS .....	15
NOTE 4.	AGENCY TRUST FUNDS.....	15
NOTE 5.	HEALTH REIMBURSEMENT ACCOUNT/FLEXIBLE SPENDING ACCOUNT .....	15
NOTE 6.	RECEIVABLES.....	16
NOTE 7.	LONG-TERM DEBT.....	16
NOTE 8.	CONTINGENCIES.....	22
NOTE 9.	EMPLOYEE RETIREMENT SYSTEM .....	22
NOTE 10.	DEFERRED COMPENSATION .....	23
NOTE 11.	INSURANCE .....	24
NOTE 12.	LANDFILL CLOSURE AND POST-CLOSURE COSTS .....	24
NOTE 13.	PRIOR PERIOD ADJUSTMENT .....	24



**MCCRACKEN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**

**June 30, 2014**

**Note 1. Summary of Significant Accounting Policies**

**A. Reporting Entity**

The financial statement of McCracken County includes all budgeted and unbudgeted funds under the control of the McCracken County Fiscal Court. Budgeted funds included within the reporting entity are those funds presented in the county's approved annual budget and reported on the quarterly reports submitted to the Department for Local Government. Unbudgeted funds may include non-fiduciary financial activities that are within the county's control. Unbudgeted funds may also include any corporation to act as the Fiscal Court in the acquisition and financing of any public project which may be undertaken by the Fiscal Court pursuant to the provisions of Kentucky law and thus accomplish a public purpose of the Fiscal Court. The unbudgeted funds are not presented in the annual approved budget or in the quarterly reports submitted to the Department for Local Government.

**B. Basis of Accounting**

The financial statement is presented on a regulatory basis of accounting, which is a basis of accounting, other than accounting principles generally accepted in the United States of America (GAAP) as established by the *Government Accounting Standards Board*. This basis of accounting involves the reporting of fund balances and the changes therein resulting from cash inflows (cash receipts) and cash outflows (cash disbursements) to meet the financial reporting requirements of the Department for Local Government and the laws of the Commonwealth of Kentucky.

This regulatory basis of accounting differs from GAAP primarily because the financial statement format does not include the GAAP presentations of government-wide and fund financial statements, cash receipts are recognized when received in cash rather than when earned and susceptible to accrual, and cash disbursements are recognized when paid rather than when incurred or subject to accrual.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

**C. Basis of Presentation**

**Budgeted Funds**

The Fiscal Court reports the following budgeted funds:

General Fund - This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary sources of receipts for this fund are state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the Fiscal Court to maintain these receipts and disbursements separately from the General Fund.

**MCCRACKEN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2014**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**C. Basis of Presentation (Continued)**

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of receipts for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the Fiscal Court to maintain these receipts and disbursements separately from the General Fund.

Local Government Economic Assistance Fund - The primary purpose of this fund is to account for grants and related disbursements. The primary sources of receipts for this fund are grants from the state and federal governments.

State Grant Fund - The primary purpose of this fund is to account for the state grant receipts and state grant disbursements of the county.

Federal Grant Fund - The primary purpose of this fund is to account for federal grant receipts and federal grant disbursements of the county.

Sheriff Fund - The primary purpose of this fund is to account for receipts and disbursements associated with the McCracken County Sheriff's Office. The primary source of receipts for this fund is the sheriff's fees turned over to the Fiscal Court after the close of each month.

Juvenile Justice Fund - The primary purpose of this fund is to account for housing expenses of the county's juvenile offenders. The primary source of receipts for this fund is transfers from the General Fund.

Transient Room Tax Fund - The primary purpose of this fund is to account for the collection and distribution of transient room tax.

**Unbudgeted Funds**

The Fiscal Court reports the following unbudgeted funds:

Debt Service (Public Properties Corporation) Fund - The primary purpose of this fund is to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest of the Public Properties Corporation. The Fiscal Court had budgeted this fund, however, the State Local Finance Officer does not require it to be budgeted and under the regulatory basis, it will be shown as an unbudgeted fund.

Jail Commissary Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit and to enhance the well-being of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Commissary Fund.

County Bond Debt Service Fund - The purpose of this fund is to account for debt service requirements of the county's general obligation funds. The Department for Local Government does not require the Fiscal Court to report or budget this fund.

Construction Projects Fund - The purpose of this fund is to account for the financial resources to be used for the acquisition or construction of county or related facilities.

**MCCRACKEN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2014**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**Unbudgeted Funds (Continued)**

Planning Commission Fund - The purpose of this fund is to account for fees charged to customers for plats, approvals, and waivers of subdivisions. Expenses of the fund consisted of payments for meals for the planning commission and work for correcting the zoning issues.

Unclaimed Fund - The purpose of this fund is to account for monies received by the County Attorney when a decedent's estate is settled and there are no survivors. Funds are held for one year and then remitted to the County's General Fund.

Car Rental Tax Fund - The purpose of this fund is to account for the receipts and disbursements of the County's rental car tax.

**D. Budgetary Information**

Annual budgets are adopted on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the *Government Accounting Standards Board* and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed disbursements to the Fiscal Court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the Fiscal Court by July 1.

The Fiscal Court may change the original budget by transferring appropriations at the activity level; however, the Fiscal Court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

The State Local Finance Officer does not require the Jail Commissary Fund to be budgeted because the Fiscal Court does not approve the expenses of this fund.

The State Local Finance Officer does not require the Public Properties Corporation Fund or the County Bond Debt Service Fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

**E. McCracken County Elected Officials**

Kentucky law provides for election of the officials below from the geographic area constituting McCracken County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the Fiscal Court, various cities and special districts within the county, and the Board of Education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statement of McCracken County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

**MCCRACKEN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2014**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**F. Deposits and Investments**

The government's fund balance is considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition. The government's fund balance includes cash and cash equivalents and investments.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

**G. Long-term Obligations**

The fund financial statement recognizes bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as disbursements. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as disbursements. Debt proceeds are reported as other adjustments to cash.

**Note 2. Deposits**

The Fiscal Court maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1) (d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

**Custodial Credit Risk - Deposits**

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240(4). As of June 30, 2014, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

**MCCRACKEN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2014**  
**(Continued)**

**Note 3. Transfers**

The table below shows the interfund operating transfers for fiscal year 2014.

	General Fund	Unclaimed Fund	County Bond Debt Service Fund	Construction Projects Fund	Total Transfers In
General Fund	\$	\$ 64,767	\$	\$9,397,013	\$ 9,461,780
Road Fund	714,697				714,697
Jail Fund	3,101,452				3,101,452
Sheriff Fund	2,351,799				2,351,799
Juvenile Justice Fund	76,589				76,589
Public Properties Corporation Fund	239,531				239,531
County Bond Debt Service Fund	465,648				465,648
Construction Projects Fund			4,300,000		4,300,000
Total Transfers Out	<u>\$6,949,716</u>	<u>\$ 64,767</u>	<u>\$4,300,000</u>	<u>\$9,397,013</u>	<u>\$20,711,496</u>

Reason for transfers:

To move resources from and to the General Fund and other funds, for budgetary purposes, to the funds that will expend them.

**Note 4. Agency Trust Funds**

Trust funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments.

The Fiscal Court has the following agency trust funds:

Jail Inmate Fund - This fund accounts for inmates' monies that are housed at the McCracken County Jail. The balance of the Jail Inmate Fund was \$14,829 as of June 30, 2014.

**Note 5. Health Reimbursement Account/Flexible Spending Account**

The McCracken County Fiscal Court established a health reimbursement account on February 11, 2013 to provide employees an additional health benefit. The County has contracted with Febco Inc., a third-party administrator, to administer the plan. The plan provides a debit card to each eligible employee providing funds, determined by health insurance coverage, each year to pay for qualified medical expenses. Employees may also contribute additional pre-tax funds through payroll. The account balance as of June 30, 2014 was \$81,848.

**MCCRACKEN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2014**  
**(Continued)**

**Note 6. Receivables**

**A. General Obligation Bonds, Series 2011 – Murray State University Project**

On November 22, 2011, McCracken County issued \$9,980,000 in General Obligation Bonds, Series 2011 for the purpose of increasing the public higher education opportunities for residents of the Greater Paducah region. On May 31, 2011, a mutual covenant was formed between McCracken County (County), the City of Paducah (Paducah), Murray State University (MSU), and the Greater Paducah Economic Development Council (GPEDC). The County, City, and GPEDC are to provide a combined \$500,000 per year for twenty years to service the debt of the bonds. It is the responsibility of MSU to make renewable lease payments to the County for the difference in the County and City's \$500,000 a year contribution, as they may allocate towards the debt service, projected payment to be no more than \$290,000 a year. As of June 30, 2014, the debt service requirements have been met.

**B. Greater Paducah Economic Development Council**

On September 18, 2007, the McCracken County Fiscal Court (County) and the City of Paducah (Paducah) entered into a financing agreement with the Greater Paducah Economic Development Council (GPEDC) for the acquisition of property. As part of the agreement, the GPEDC executed and delivered to the County an interest free promissory note in the amount of \$600,000 for one half of the financing. On December 19, 2008, the County agreed to an additional note of \$311,375 for the GPEDC to purchase property. In December of 2013, the County forgave \$500,000 of the \$911,375 loaned to the GPEDC. The entire principal amount of the note for \$411,375 is due and payable by June 30, 2015.

**Note 7. Long-term Debt**

**A. First Mortgage Revenue Refunding Bonds Series 2004**

On September 1, 2004, the County sold McCracken County, Kentucky Public Properties Corporation First Mortgage Revenue Refunding Bonds, (Courthouse Project), Series 2004 (the Bonds) through the McCracken County, Kentucky Public Properties Corporation. The Bonds originally totaled \$6,025,000, and the proceeds were used for the purposes of (i) refunding \$7,290,000 McCracken County Kentucky Public Properties Corporation Public Project Revenue Bonds (Court Facilities Project) and (ii) paying the costs of issuance of the Bonds, which are dated August 1, 2004. The bonds have interest rates of 3.00% to 4.75% and mature beginning in September 2005 through September 2026. As of June 30, 2014, these bonds had been called.

**B. First Mortgage Revenue Refunding Bonds, Series 2013**

On December 17, 2013, the County sold McCracken County, Kentucky Public Properties Corporation First Mortgage Revenue Refunding Bonds, Series 2013, (Courthouse Project) through the McCracken County, Kentucky Public Properties Corporation. The Bonds totaled \$3,165,000, and the proceeds were used for the purposes of, (i) refunding all of the outstanding Series 2004 bonds issued by the McCracken County Public Properties Corporation and (ii) paying the cost of issuance on the bonds, which are dated December 17, 2013. The bonds have interest rates of 1% to 3.65% and mature beginning in June 2014 through June 2027. As of June 30, 2014, outstanding bond principal was \$3,165,000.

**MCCRACKEN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2014**  
**(Continued)**

**Note 7. Long-term Debt (Continued)**

**B. First Mortgage Revenue Refunding Bonds, Series 2013 (Continued)**

Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 315,000	\$ 58,356
2016	450,000	54,531
2017	455,000	50,006
2018	195,000	46,610
2019	200,000	43,989
2020-2024	1,060,000	151,706
2025-2027	490,000	17,287
Totals	<u>\$ 3,165,000</u>	<u>\$ 422,485</u>

**C. General Obligation Bonds, Series 2011 (MSU Project)**

On November 22, 2011, the County sold McCracken County, Kentucky General Obligation Bonds, (Murray State University Project), Series 2011 (the Bonds). The Bonds originally totaled \$9,980,000, and the proceeds will be used for the purposes of (i) constructing an education building and associated streets, parking lots, utilities and infrastructure, and (ii) paying the costs of issuance of the Bonds which are dated November 22, 2011. The bonds have interest rates of 1.00% to 3.50% and mature beginning in December 2012 through December 2031. A mutual covenant was formed by McCracken County (County), the City of Paducah (Paducah), Murray State University (MSU), and the Greater Paducah Economic Development Council (GPEDC). See Note 5A for receivable. As of June 30, 2014, outstanding lease principal was \$9,155,000. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 420,000	\$ 232,131
2016	425,000	227,375
2017	435,000	221,456
2018	440,000	214,344
2019	445,000	206,044
2020-2024	2,390,000	876,963
2025-2029	2,735,000	532,434
2030-2032	1,865,000	97,575
Totals	<u>\$ 9,155,000</u>	<u>\$ 2,608,322</u>

**MCCRACKEN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2014**  
**(Continued)**

**Note 7. Long-term Debt (Continued)**

**D. General Obligation Bonds, Series 2013A (TeleTech Project)**

On June 17, 2013, the County sold McCracken County, Kentucky General Obligation Bonds, (TeleTech Project), Series 2013A (the Bonds). The Bonds originally totaled \$1,415,000, and the proceeds will be used for the purposes of (i) financing the acquisition, construction, installation, and equipping of an approximately 30,000 square foot building, which will be subleased to TeleTech Services Corporation and (ii) paying the costs of issuance of the Bonds, which are dated June 17, 2013. The bonds have interest rates of 1.00% to 5.00% and mature beginning in December 2013 through December 2032. The County received a good faith deposit of \$28,300, in June 2013 and the rest of the funds in July 2013 (fiscal year 2014). As of June 30, 2014, outstanding bond principal was \$1,360,000. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 55,000	\$ 52,050
2016	55,000	51,280
2017	55,000	50,510
2018	55,000	49,438
2019	55,000	48,063
2020-2024	315,000	213,550
2025-2029	380,000	145,600
2030-2033	<u>390,000</u>	<u>40,250</u>
Totals	<u>\$ 1,360,000</u>	<u>\$ 650,741</u>

**E. General Obligation Bonds, Series 2013B (Whitehall/MAACO Project)**

On September 10, 2013, the County sold McCracken County, Kentucky General Obligation Bonds, (Whitehall/MAACO Project), Series 2013B (the Bonds). The Bonds originally totaled \$3,015,000, and the proceeds will be used for the purposes of (i) financing improvements to an industrial/distribution facility located within the County (the "MAACO" Project) to be leased to a Kentucky subsidiary of MAACO Organiques Incorporated, a Canadian corporation, (ii) financing equipment for the use by SRS Industries, LLC d/b/a Whitehall Industries, a Michigan limited liability company, at an industrial/distribution facility located within the County to be leased by such company (the "Whitehall Project," and together with the MAACO Project, the "Project"), and (iii) paying the costs of issuing the Bonds. The Bonds have interest rates of 3.00% to 5.00% and mature beginning in March, 2014 through September, 2033. The County received a good faith deposit of \$60,300, in September 2013 along with the remainder of the funds. As of June 30, 2014, outstanding lease principal was \$3,015,000.



**MCCRACKEN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2014**  
**(Continued)**

**Note 7. Long-term Debt (Continued)**

**E. General Obligation Bonds, Series 2013B (Whitehall/MAACO Project) (Continued)**

Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 195,000	\$ 102,825
2016	200,000	96,900
2017	210,000	90,750
2018	215,000	84,375
2019	220,000	77,850
2020-2024	1,210,000	283,950
2025-2029	335,000	151,125
2030-2033	335,000	53,375
2034	95,000	2,375
Totals	<u>\$ 3,015,000</u>	<u>\$ 943,525</u>

**F. Notes Payable**

**Convention Center and Four Rivers Centers – City of Paducah**

On August 19, 2010, the County issued a note payable to the City of Paducah, Kentucky (City) in the amount of \$3,582,500. The note was authorized for the purpose of paying the County's fifty percent portion of the refinancing costs related to the original acquisition, construction, installation and equipping of the expansion to the Julian Carroll Convention Center and the construction of the Four Rivers Center for the Performing Arts (collectively, the Project) and paying the County's fifty percent portion of the costs of issuance by the City of Paducah (the City) of its General Obligation Refunding Bonds, Series 2010 (the City Bonds) being issued to refinance the costs of the Project. The note has interest rates of 1.0% to 3.25%, and interest payments are to be made semi-annually beginning December 1, 2010. Principal payments are to be made annually on June 1 with final payment due June 1, 2026. The balance on the note as of June 30, 2013 was \$2,902,500. Annual debt service requirements to maturity are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 210,000	\$ 80,859
2016	215,000	76,659
2017	220,000	72,359
2018	225,000	67,409
2019	227,500	61,783
2020-2024	1,250,000	206,594
2025-2027	555,000	27,219
Totals	<u>\$ 2,902,500</u>	<u>\$ 592,882</u>

**MCCRACKEN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2014**  
**(Continued)**

**Note 7. Long-term Debt (Continued)**

**F. Notes Payable (Continued)**

**Speculative Building – City of Paducah**

On August 23, 2011, the County issued a note payable to the City of Paducah, Kentucky (City) in the amount of \$1,955,000. The note was authorized for the purpose of refinancing the May 1, 2004 note payable to the City of Paducah, Kentucky (City). In August 2011, the City issued General Obligation Taxable Refunding Bonds of \$3,910,000 to advance refund General Obligation Public Project Bonds, Series 2004 issued for the purpose of the acquisition, construction and installation of an approximately 100,000 square foot building to be leased by the City and County to the Paducah McCracken Industrial Development Authority. On June 1, 2004, the City and County entered into a lease agreement with the Paducah McCracken County Industrial Development Authority. On September 1, 2004, the Paducah McCracken County Industrial Development Authority entered into an agreement with Infiniti Plastic Technologies, Inc. Infiniti shall be responsible for the payment of the monthly rent installments for the remainder of the term of the lease, which monthly rent installments commenced on September 1, 2007. The note has an interest rate of 3.68% and interest payments are to be made semiannually beginning December 1, 2011. Principal payments are to be made annually on June 1 with the final payment due on June 1, 2024. The balance on the note as of June 30, 2014 was \$1,550,000. Annual debt service requirements to maturity are as follows:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 140,000	\$ 57,040
2016	145,000	51,888
2017	150,000	46,552
2018	155,000	41,032
2019	160,000	35,328
2020-2024	<u>800,000</u>	<u>83,352</u>
Totals	<u>\$ 1,550,000</u>	<u>\$ 315,192</u>

**G. KaCOLT-Convention Center Renovation**

On December 20, 2010, the Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust Program in the sum of \$4,965,000 at a 4.25% effective interest rate. The financing obligation is for the purpose of refinancing the renovation of the Julian Carroll Convention Center. The maturity date of the obligation is January 1, 2026. The balance on the lease as of June 30, 2014 was \$4,162,500.

**MCCRACKEN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2014**  
**(Continued)**

**Note 7. Long-term Debt (Continued)**

**G. KaCOLT-Convention Center Renovation (Continued)**

Annual debt service requirements to maturity are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 192,083	\$ 178,132
2016	219,167	185,263
2017	229,167	175,400
2018	239,167	165,088
2019	249,166	154,325
2020-2024	1,420,000	593,388
2025-2029	<u>1,613,750</u>	<u>233,328</u>
	<u>\$ 4,162,500</u>	<u>\$ 1,684,924</u>

**H. KaCOLT-Jail and Sheriff's Office Expansion**

On December 20, 2010, the Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust Program in the sum of \$4,145,000 at a 4.25% effective interest rate. The financing obligation is for the purpose of refinancing the expansion of the jail and sheriff's office. The maturity date of the obligation is January 1, 2029. The balance on the lease as of June 30, 2014 was \$3,407,500. Annual debt service requirements to maturity are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 210,417	\$ 142,236
2016	241,250	145,238
2017	254,167	134,381
2018	264,167	122,944
2019	276,250	111,056
2020-2024	1,584,166	357,038
2025-2026	<u>577,083</u>	<u>37,405</u>
	<u>\$ 3,407,500</u>	<u>\$ 1,050,298</u>

**MCCRACKEN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2014**  
**(Continued)**

**Note 7. Long-term Debt (Continued)**

**I. Changes in Long-Term Debt**

Long-term liability debt activity for the year ended June 30, 2014, was as follows:

	Beginning Balance	Additions *	Reductions	Ending Balance	Due Within One Year
General Obligation Bonds	\$ 10,985,000	\$ 3,015,000	\$ 470,000	\$13,530,000	\$ 670,000
Revenue Bonds	3,405,000	3,165,000	3,405,000	3,165,000	315,000
Notes Payable (Restated) **	4,795,000		342,500	4,452,500	350,000
Financing Obligations	7,990,000		420,000	7,570,000	402,500
Total Long-term Debt	<u>\$ 27,175,000</u>	<u>\$ 6,180,000</u>	<u>\$ 4,637,500</u>	<u>\$28,717,500</u>	<u>\$ 1,737,500</u>

\* General Obligation Bond additions do not agree to the bond proceeds reported on the Financial Statement. This is due to General Obligation Bond Series 2013A (TeleTech Project) being recognized in the prior year, but bond proceeds, less the \$28,300 Good Faith Deposit, being received in the current year.

\*\* The beginning balance of Notes Payable has been restated \$24,942 for premiums and discounts that were previously netted against the outstanding debt in prior years.

**Note 8. Contingencies**

The County is involved in multiple lawsuits that arose from the normal course of doing business. While individually they may not be significant; in the aggregate, they could negatively impact the county's financial position. Due to the uncertainty of the litigation, a reasonable estimate of the financial impact on the county cannot be made at this time.

**Note 9. Employee Retirement System**

The Fiscal Court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute six percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 18.89 percent.

Hazardous covered employees are required to contribute eight percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute nine percent of their salary to be allocated as follows: eight percent will go to the member's account and one percent will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 35.70 percent.

The county's contribution for FY 2012 was \$1,979,458, FY 2013 was \$2,213,950, and FY 2014 was \$2,147,615.

**MCCRACKEN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2014**  
**(Continued)**

**Note 9. Employee Retirement System (Continued)**

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (member's age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

CERS also provides post-retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

<b>Years of Service</b>	<b>% paid by Insurance Fund</b>	<b>% Paid by Member through Payroll Deduction</b>
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Hazardous employees whose participation began on or after July 1, 2003, earn 15 dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, such employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

**Note 10. Deferred Compensation**

On November 9, 1982, the McCracken County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

**MCCRACKEN COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2014**  
**(Continued)**

**Note 10. Deferred Compensation (Continued)**

These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

**Note 11. Insurance**

For the fiscal year ended June 30, 2014, McCracken County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

**Note 12. Landfill Closure and Post-Closure Costs**

The County landfill closed to the public on June 30, 1995. The County must comply with established state and federal landfill closure and post-closure procedures and must perform maintenance and monitoring at the site for thirty years after closure. The 30-year period will begin upon approval from the Commonwealth of Kentucky regarding the environmental condition of the landfill site. As of June 30, 2014, the final approval of the closure had not yet been granted. Closure costs for FYE June 30, 2014 were \$76,947. In June 2014, the City of Paducah reimbursed the County \$46,663 for its share of landfill expenses.

Estimated post-closure care costs total \$4,125,000 or \$125,000 per year plus 10 percent for inflation. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

McCracken County prepares required financial statements on the regulatory basis of accounting in accordance with the laws of Kentucky, therefore no liability has been recognized for the closure or post-closure care costs. State and federal laws and regulations require for the Fiscal Court to provide financial assurance that landfill closure and post-closure care costs are properly funded. In order to meet financial assurance requirements, the Fiscal Court entered into an inter-local agreement with the City of Paducah, Kentucky to share equally the post closure costs. The City of Paducah, Kentucky will reimburse the County annually for its share of closure costs incurred during the fiscal year.

**Note 13. Prior Period Adjustment**

Ending Cash Balance Prior Year	\$ 13,630,260
Adjustments:	
Prior Year Voided Checks -General Fund	299
Car Rental Tax Fund	<u>78,501</u>
Beginning Fund Balance - Restated	<u><u>\$ 13,709,060</u></u>

**MCCRACKEN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**

**For The Year Ended June 30, 2014**





**MCCRACKEN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**

**For The Year Ended June 30, 2014**

	<b>GENERAL FUND</b>			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
<b>RECEIPTS</b>				
Taxes	\$ 10,009,348	\$ 10,009,348	\$ 10,824,385	\$ 815,037
In Lieu Tax Payments	1,050,000	1,050,000	1,105,678	55,678
Excess Fees	1,514,506	1,514,506		(1,514,506)
Licenses and Permits	388,000	388,000	353,704	(34,296)
Intergovernmental	1,793,171	1,943,171	3,161,371	1,218,200
Charges for Services	35,000	35,000	52,479	17,479
Miscellaneous	561,500	861,500	666,187	(195,313)
Interest	25,000	25,000	19,634	(5,366)
Total Receipts	15,376,525	15,826,525	16,183,438	356,913
<b>DISBURSEMENTS</b>				
General Government	4,737,423	4,246,709	4,246,686	23
Protection to Persons and Property	1,059,726	1,164,676	1,164,664	12
General Health and Sanitation	401,403	407,594	407,283	311
Social Services	145,000	151,336	151,336	
Recreation and Culture	216,576	196,294	196,291	3
Bus Services	9,000	9,000	9,000	
Debt Service	1,178,885	883,072	883,071	1
Capital Projects	4,450,000	9,395,583	9,395,582	1
Administration	3,068,638	3,287,370	2,992,415	294,955
Total Disbursements	15,266,651	19,741,634	19,446,328	295,306
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	109,874	(3,915,109)	(3,262,890)	652,219
<b>Other Adjustments to Cash (Uses)</b>				
Borrowed Money	4,450,000	(432,013)		432,013
Transfers From Other Funds		9,397,013	9,461,780	64,767
Transfers To Other Funds	(7,359,874)	(7,825,522)	(6,949,716)	875,806
Total Other Adjustments to Cash (Uses)	(2,909,874)	1,139,478	2,512,064	1,372,586
Net Change in Fund Balance	(2,800,000)	(2,775,631)	(750,826)	2,024,805
Fund Balance Beginning (Restated)	2,800,000	2,800,000	6,429,620	3,629,620
Fund Balance - Ending	\$ 0	\$ 24,369	\$ 5,678,794	\$ 5,654,425

**MCCRACKEN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2014**  
**(Continued)**

<b>ROAD FUND</b>				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
<b>RECEIPTS</b>				
Intergovernmental	\$ 1,396,026	\$ 6,501,978	\$ 1,824,748	\$ (4,677,230)
Miscellaneous	1,000	1,000		(1,000)
Total Receipts	1,397,026	6,502,978	1,824,748	(4,678,230)
<b>DISBURSEMENTS</b>				
Roads	2,023,970	2,039,036	2,015,560	23,476
Capital Projects		5,057,762	19,546	5,038,216
Administration	480,339	513,463	504,439	9,024
Total Disbursements	2,504,309	7,610,261	2,539,545	5,070,716
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(1,107,283)	(1,107,283)	(714,797)	392,486
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	1,107,283	1,107,283	714,697	(392,586)
Total Other Adjustments to Cash (Uses)	1,107,283	1,107,283	714,697	(392,586)
Net Change in Fund Balance			(100)	(100)
Fund Balance Beginning			100	100
Fund Balance - Ending	\$ 0	\$ 0	\$ 0	\$ 0

**MCCRACKEN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2014**  
**(Continued)**

<b>JAIL FUND</b>				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 2,378,000	\$ 2,378,000	\$ 2,638,104	\$ 260,104
Charges for Services	165,000	165,000	180,682	15,682
Miscellaneous	325,000	325,000	272,294	(52,706)
Total Receipts	2,868,000	2,868,000	3,091,080	223,080
<b>DISBURSEMENTS</b>				
Protection to Persons and Property	4,592,141	4,592,593	4,571,073	21,520
Administration	1,643,255	1,642,803	1,621,459	21,344
Total Disbursements	6,235,396	6,235,396	6,192,532	42,864
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(3,367,396)	(3,367,396)	(3,101,452)	265,944
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	3,367,396	3,367,396	3,101,452	(265,944)
Total Other Adjustments to Cash (Uses)	3,367,396	3,367,396	3,101,452	(265,944)
Net Change in Fund Balance				
Fund Balance Beginning				
Fund Balance - Ending	\$ 0	\$ 0	\$ 0	\$ 0

**MCCRACKEN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2014**  
**(Continued)**

**LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND**

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 5,000	\$ 5,000	\$ 21,528	\$ 16,528
Total Receipts	5,000	5,000	21,528	16,528
<b>DISBURSEMENTS</b>				
Social Services	6,000	6,000		6,000
Total Disbursements	6,000	6,000		6,000
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(1,000)	(1,000)	21,528	22,528
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	1,000	1,000		(1,000)
Total Other Adjustments to Cash (Uses)	1,000	1,000		(1,000)
Net Change in Fund Balance			21,528	21,528
Fund Balance Beginning			203,758	203,758
Fund Balance - Ending	\$ 0	\$ 0	\$ 225,286	\$ 225,286

**MCCRACKEN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2014**  
**(Continued)**

<b>STATE GRANT FUND</b>				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 200,000	\$ 875,000	\$ 499,097	\$ (375,903)
Total Receipts	200,000	875,000	499,097	(375,903)
<b>DISBURSEMENTS</b>				
Social Services	200,000	997,035	742,583	254,452
Administration		745	744	1
Total Disburements	200,000	997,780	743,327	254,453
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		(122,780)	(244,230)	(121,450)
Net Change in Fund Balance		(122,780)	(244,230)	(121,450)
Fund Balance Beginning			371,731	371,731
Fund Balance - Ending	\$ 0	\$ (122,780)	\$ 127,501	\$ 250,281

**MCCRACKEN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2014**  
**(Continued)**

<b>FEDERAL GRANT FUND</b>				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 300,000	\$ 1,300,000	\$ 108,758	\$ (1,191,242)
Total Receipts	300,000	1,300,000	108,758	(1,191,242)
<b>DISBURSEMENTS</b>				
Social Services	300,000	1,177,220	38,519	1,138,701
Total Disburesments	300,000	1,177,220	38,519	1,138,701
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		122,780	70,239	(52,541)
Net Change in Fund Balance		122,780	70,239	(52,541)
Fund Balance Beginning			470,978	470,978
Fund Balance - Ending	\$ 0	\$ 122,780	\$ 541,217	\$ 418,437

**MCCRACKEN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2014**  
**(Continued)**

<b>SHERIFF FUND</b>				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
<b>RECEIPTS</b>				
Intergovernmental	\$ 1,606,000	\$ 1,606,000	\$ 1,613,154	\$ 7,154
Total Receipts	1,606,000	1,606,000	1,613,154	7,154
<b>DISBURSEMENTS</b>				
General Government	2,492,012	2,563,965	2,563,357	608
Administration	1,449,182	1,401,598	1,401,596	2
Total Disbursements	3,941,194	3,965,563	3,964,953	610
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(2,335,194)	(2,359,563)	(2,351,799)	7,764
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	2,335,194	2,335,194	2,351,799	16,605
Total Other Adjustments to Cash (Uses)	2,335,194	2,335,194	2,351,799	16,605
Net Change in Fund Balance		(24,369)		24,369
Fund Balance Beginning				
Fund Balance - Ending	\$ 0	\$ (24,369)	\$ 0	\$ 24,369

**MCCRACKEN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2014**  
**(Continued)**

<b>JUVENILE JUSTICE FUND</b>				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>DISBURSEMENTS</b>				
Protection to Persons and Property	\$ 90,000	\$ 90,000	\$ 76,589	\$ (13,411)
Administration	10,500	10,500		(10,500)
Total Receipts	100,500	100,500	76,589	(23,911)
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(100,500)	(100,500)	(76,589)	23,911
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	100,500	100,500	76,589	(23,911)
Total Other Adjustments to Cash (Uses)	100,500	100,500	76,589	(23,911)
Net Change in Fund Balance				
Fund Balance Beginning				
Fund Balance - Ending	\$ 0	\$ 0	\$ 0	\$ 0



**MCCRACKEN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2014**  
**(Continued)**

<b>TRANSIENT ROOM TAX FUND</b>				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Taxes	\$ 1,725,000	\$ 1,725,000	\$ 1,772,922	\$ 47,922
Interest	500	500	358	(142)
Total Receipts	1,725,500	1,725,500	1,773,280	47,780
<b>DISBURSEMENTS</b>				
Recreation and Culture	1,725,001	1,172,750	1,172,749	1
Debt Service		581,698	581,698	
Total Disburesments	1,725,001	1,754,448	1,754,447	1
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	499	(28,948)	18,833	47,781
<b>Other Adjustments to Cash (Uses)</b>				
Transfers To Other Funds	(499)	(499)		499
Total Other Adjustments to Cash (Uses)	(499)	(499)		499
Net Change in Fund Balance		(29,447)	18,833	48,280
Fund Balance Beginning			264,231	264,231
Fund Balance - Ending	\$ 0	\$ (29,447)	\$ 283,064	\$ 312,511

**MCCRACKEN COUNTY**  
**NOTES TO REGULATORY SUPPLEMENTARY**  
**INFORMATION - BUDGETARY COMPARISON SCHEDULES**

**June 30, 2014**

**Note 1. Budgetary Information**

Annual budgets are adopted on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the *Government Accounting Standards Board* and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed disbursements to the Fiscal Court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the Fiscal Court by July 1.

The Fiscal Court may change the original budget by transferring appropriations at the activity level; however, the Fiscal Court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

**MCCRACKEN COUNTY**  
**SUPPLEMENTARY SCHEDULE**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2014**



**MCCRACKEN COUNTY**  
**SCHEDULE OF CAPITAL ASSETS**  
**Supplementary Information - Regulatory Basis**

**For The Year Ended June 30, 2014**

The Fiscal Court reports the following schedule of capital assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land and Land Improvements	\$ 1,172,482	\$ 594,838	\$	\$ 1,767,320
Buildings	38,314,380			38,314,380
Vehicles and Equipment	7,020,225	338,549	60,868	7,297,906
Infrastructure	87,299,567			87,299,567
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total Capital Assets	<u>\$ 133,806,654</u>	<u>\$ 933,387</u>	<u>\$ 60,868</u>	<u>\$ 134,679,173</u>

**MCCRACKEN COUNTY**  
**NOTES TO REGULATORY SUPPLEMENTARY**  
**INFORMATION - SCHEDULE OF CAPITAL ASSETS**

**June 30, 2014**

**Note 1. Capital Assets**

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported as other information. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 20,000	20
Buildings and Building Improvements	\$ 20,000	50
Machinery and Equipment	\$ 10,000	10
Vehicles	\$ 10,000	5
Office Equipment	\$ 10,000	5
Infrastructure	\$ 20,000	12-50

**MCCRACKEN COUNTY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**





**MCCRACKEN COUNTY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**Fiscal Year Ended June 30, 2014**

Federal Grantor Program Title Grant Name (CFDA #)	Pass-Through Grantor's Number	Expenditures
<b><u>U.S. Department of Homeland Security</u></b>		
<i><b>Passed Through Kentucky Department of Military Affairs:</b></i>		
Hazard Mitigation Grant Program (CFDA 97.039)	PON2 095 1300000009 *	\$ 471,411
Emergency Management Performance Grants (CFDA 97.042)	PO2 095 140000335 1	32,146
<i><b>Passed Through Kentucky Department of Homeland Security:</b></i>		
Port Security Grant Program (CFDA 97.056)	EMW 2013 PU 00490 S01	122,511
Homeland Security Grant Program (CFDA 97.067)	PO2 094 1400002766 1	<u>22,789</u>
Total U.S. Department Of Homeland Security		<u>648,857</u>
Total Cash Expenditures of Federal Awards		<u>\$ 648,857</u>

\*Tested as Major Program or Cluster

**MCCRACKEN COUNTY**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Fiscal Year Ended June 30, 2014**

Note 1 - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of McCracken County, Kentucky and is presented on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the *Government Accounting Standards Board*. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**





**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Bob Leeper, McCracken County Judge/Executive  
The Honorable Van Newberry, Former McCracken County Judge/Executive  
Members of the McCracken County Fiscal Court

**Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards**

**Independent Auditor's Report**

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the McCracken County Fiscal Court for the fiscal year ended June 30, 2014, and the related notes to the financial statement and have issued our report thereon dated December 16, 2015. The Fiscal Court's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statement, we considered the McCracken County Fiscal Court's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the McCracken County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the McCracken County Fiscal Court's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2014-001, 2014-003, and 2014-004 to be material weaknesses.



Report On Internal Control Over Financial Reporting  
And On Compliance And Other Matters Based On An Audit Of Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

**Internal Control Over Financial Reporting (Continued)**

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2014-005, 2014-006, and 2014-007 to be significant deficiencies.

**Compliance And Other Matters**

As part of obtaining reasonable assurance about whether the McCracken County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the schedule of findings and questioned costs as items 2014-002 and 2014-007.

**County Judge/Executive and County Jailer's Responses to Findings**

The McCracken County Judge/Executive and County Jailer's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The County Judge/Executive and County Jailer's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal flourish extending to the right.

Mike Harmon  
Auditor of Public Accounts

December 16, 2015

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM  
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133**







**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Bob Leeper, McCracken County Judge/Executive  
The Honorable Van Newberry, Former McCracken County Judge/Executive  
Members of the McCracken County Fiscal Court

**Report On Compliance For Each Major Federal Program  
And Report On Internal Control Over Compliance  
In Accordance With OMB Circular A-133**

**Independent Auditor's Report**

**Compliance**

We have audited McCracken County, Kentucky's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of McCracken County's major federal programs for the year ended June 30, 2014. McCracken County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of McCracken County's major federal programs based on our audit of the types of compliance requirement referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about McCracken County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of McCracken County's compliance.

**Opinion on Each Major Federal Program**

In our opinion, McCracken County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.



Report On Compliance For Each Major Federal Program  
And Report On Internal Control Over Compliance  
In Accordance With OMB Circular A-133  
(Continued)

### Internal Control over Compliance

Management of McCracken County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered McCracken County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing our auditing procedures that were appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of McCracken County's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might material weakness or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", followed by a horizontal line.

Mike Harmon  
Auditor of Public Accounts

December 16, 2015

**MCCRACKEN COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**For The Year Ended June 30, 2014**



**MCCRACKEN COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**Fiscal Year Ended June 30, 2014**

**Section I: Summary of Auditor's Results**

Type of auditor's report issued: unmodified

Internal control over financial reporting:

Are any material weaknesses identified?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Are any significant deficiencies identified not considered to be material weaknesses?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> None Reported
Is any noncompliance material to financial statements noted?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

***Federal Awards***

Type of auditor's report issued on compliance for major programs: unmodified

Internal control over major programs:

Are any material weaknesses identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are any significant deficiencies identified not considered to be material weaknesses?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None Reported
Are any audit findings disclosed that are required to be reported in accordance with <u>U.S. Office of Management and Budget Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations, Section .510(a)?</u>	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Identification of major programs:

CFDA Numbers and Name of Federal Program or Cluster

#97.039 Hazard Mitigation Grant Program
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Enter the dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Is the auditee qualified as a low-risk auditee?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

**MCCRACKEN COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Fiscal Year End June 30, 2014**  
**(Continued)**

**Section II: Findings – Financial Statement Audit**

2014-001    Material Weaknesses Over Cash Resulted In Unauthorized Cash Transfers

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McCracken County Fiscal Court has material weaknesses in internal controls over cash that resulted in unauthorized cash transfers. Of the 25 cash transfers that were tested, \$6,201,118 was transferred between the operating funds. Fiscal court only approved the transfer of \$3,805,790, resulting in \$2,395,328 of unauthorized cash transfers.

Good internal controls over cash should include documented approval of cash transfers by Fiscal Court prior to transferring any county funds. Without this approval, county funds could be misappropriated or misused. While of the items tested no funds were determined to be missing, the lack of proper Fiscal Court oversight did result in the unauthorized transfers and therefore may have resulted in funds being used for purposes other than what they were intended.

We recommend the Fiscal Court require all cash transfers be approved by Fiscal Court prior to the transfer being made. We also recommend such approvals be adequately documented in the Fiscal Court minutes.

*County Judge/Executive Response: Corrective action has been taken.*

2014-002    Decentralized Receipts Were Not Properly Turned Over To The County Treasurer

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The following findings were noted with the County's decentralized receipts:

- Planning Commission receipts were not submitted to the County Treasurer to be recorded in the county treasury.
- Fees for building and electrical permits were turned over to the County Treasurer once a month.

KRS 68.020(1) states "The county treasurer shall receive and receipt for all money due the county from its collecting officers or from any other person whose duty it is to pay money into the county treasury, and shall disburse such money in such manner and for such purpose as may be authorized by appropriate authority of the fiscal court. He shall not disburse any money received by him for any purpose other than that for which it was collected and paid over to him, and when he pays out money he shall take a receipt therefor. All warrants for the payment of funds from the county treasury shall be co-signed by the county treasurer and the county judge/executive." Because the Planning Commission chose not to turn their receipts over to the County Treasurer, cash balances were omitted from required financial statements, supporting documentation for monies collected was not maintained, and disbursements of these funds were not approved by Fiscal Court. As a result, the County was not in compliance with KRS 68.020(1).

In addition to KRS 68.020, KRS 68.210 states "The administration of the county uniform budget system shall be under the supervision of the state local finance officer...". Minimum accounting requirements pursuant to KRS 68.210 include daily deposits intact into a federally insured banking institution. Because the county chose to turn fees for building and electrical permits over to the County Treasurer once a month, the County was not in compliance with KRS 68.210.

**MCCRACKEN COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Fiscal Year End June 30, 2014**  
**(Continued)**

**Section II: Findings – Financial Statement Audit (Continued)**

2014-002    Decentralized Receipts Were Not Properly Turned Over To The County Treasurer (Continued)

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We recommend the Fiscal Court comply with KRS 68.020(1) and KRS 68.210 by requiring all funds collected in locations other than the Treasurer's office to be submitted to the County Treasurer for recording in the County Treasury and deposited intact into a federally insured banking institution on a daily basis.

*County Judge/Executive Response: The Planning commission account was closed September 2014. We have instructed the building and electric staff to turn over receipts on a timely basis.*

2014-003    Weak Internal Controls Over Debt And Debt Service Resulted In The Misstatement Of Outstanding Debt Balances

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Material weaknesses exist over the reporting of liabilities and debt of McCracken County. The June 30, 2014 outstanding debt balances reported on the 4<sup>th</sup> Quarter Financial Report were misstated when compared to the actual debt balances confirmed with lenders.

Strong internal controls over outstanding debt and liabilities are necessary to ensure accurate financial reporting. Because the county failed to have a strong internal control system over liabilities and debt service, these misstatements were able to occur without detection. Therefore, we recommend the county strengthen internal controls over the reporting of debt service payments and outstanding balances. Internal controls, such as comparisons of payment amounts and outstanding balances to amortization and payment schedules, should be implemented. We also recommend the county consult with its lenders to verify outstanding debt balances are in agreement with the County's schedule of leases and liabilities. Such practices will strengthen internal controls over liabilities and debt service and ensure that proper amounts are reported.

*County Judge/Executive Response: Corrective action has been taken.*

2014-004    Weak Internal Controls Over Capital Assets Resulted In the Omission Of Capital Asset Additions From The County's Schedule Of Capital Assets

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Material weaknesses exist over the reporting of capital assets of McCracken County. The County's schedule of capital assets for the period of audit failed to recognize all asset purchases that occurred throughout the year. Furthermore, at least one of these asset additions did not appear to be added to the County's insurance policy.

Strong internal controls over capital assets are necessary to ensure accurate financial reporting and to protect assets from misappropriation. By having weak internal controls over capital assets, those assets are left vulnerable to misappropriation or misstatement.

In order to strengthen the county's internal controls over capital assets, we recommend the county establish a detailed inventory system. This system should include a detailed description of each county asset, an inventory control number or serial number, the date acquired, purchase price, location, date destroyed or sold as surplus, and a brief description of why the asset was discarded. The inventory of county assets should be updated throughout the year as new assets are acquired or old assets are retired, as should the County's insurance coverage. We also recommend the county conduct a physical inspection of the county's assets at the end of each year to make comparisons to the county's list of inventoried assets.

*County Judge/Executive Response: Updated software has allowed for more accurate reporting of capital assets.*

**MCCRACKEN COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Fiscal Year End June 30, 2014**  
**(Continued)**

**Section II: Findings – Financial Statement Audit (Continued)**

2014-005    The McCracken County Jailer Failed To Implement Internal Controls Over The Service Organization Handling Inmate Funds

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For the fiscal year ended June 30, 2014, the McCracken County Jail contracted with a 3<sup>rd</sup> party service organization, to handle the operations of the jail commissary as well as inmates' funds. While such a contract is allowable by statute, the Jailer is still considered the custodial agent for the inmates' funds; and therefore is responsible for internal controls over them. However, because of the reliance placed on the service organization, the Jailer exercised no internal controls over the inmates' funds, leaving them susceptible to potential errors and misappropriation.

We recommend the Jailer establish internal controls over the activities of the service organization in order to protect the McCracken County Jail from loss or liability related to inmates' funds. At a minimum, these internal controls should include the following:

- Requiring the service organization to provide documentation of daily batched receipts, daily checkout sheets, and daily deposits.
- Requiring the service organization to provide supporting documentation for all amounts disbursed from the inmates' funds.
- Monthly reconciliations of the inmates' account balances to the bank balance to determine if inmates' funds maintained in this account are properly accounted for as required by statute.
- Having a knowledgeable jail employee review the work of the service organization handling the inmates' monies.

By implementing these internal control procedures, the Jailer can strengthen the controls over jail inmate funds and reduce the risks of errors and misappropriation associated with them.

*County Jailer's Response: We have utilized this company for many years. We have always followed recommendations made by the auditors. However this is the first for some of the recommendations made. We have contacted the vendor and made necessary arrangements ask [sic] for.*

2014-006    The McCracken County Fiscal Court Should Improve Internal Controls Over Payroll And Payroll Related Payments

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The following findings were noted with the County's payroll system:

- Not all timesheets were signed by employees and supervisors.
- Documentation of Flexible Spending Account and Health Reimbursement Account (FSA/HRA) benefits was not found in the minutes of the Fiscal Court.

Strong internal controls and proper documentation of employees' benefits are vital in ensuring that payroll and benefits are properly accounted for. They are also important in protecting the County and its employees from potential disputes. Because the county failed to have either in place, the aforementioned findings occurred. In response to these findings, we make the following recommendations:



**MCCRACKEN COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Fiscal Year End June 30, 2014**  
**(Continued)**

**Section II: Findings – Financial Statement Audit (Continued)**

2014-006 The McCracken County Fiscal Court Should Improve Internal Controls Over Payroll And Payroll Related Payments (Continued)

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- McCracken County should require all timesheets to be signed by both the employee and his or her supervisor.
- Flexible Spending Account and Health Reimbursement Account (FSA/HRA) benefits should be properly approved, with said approval being documented in the minutes to the Fiscal Court meetings.

*County Judge/Executive Response: Documentation of FSA/HRA has been run through FC.*

2014-007 Weak Internal Controls Over Credit Card Disbursements Resulted In Late Fees And Potential Misuse

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The following findings were noted with the County's credit card disbursements:

- Two instances where finance charges were incurred.
- Six disbursements had no supporting documentation.
- Ten disbursements did not have adequate supporting documentation.
- The former EMA director made multiple food purchases by credit card that were undocumented and could not be explained.

KRS 65.140 requires payment of bills within 30 days. KRS 68.275(2) states "The county judge/executive shall present all claims to the fiscal court for review prior to payment and the court, for good cause shown, may order that a claim not be paid." Disbursements should be necessary, adequately documented, reasonable and beneficial to the business of the county. Additionally, the County's Policies and Procedures state that "The County will reimburse for meals, with receipts only, at the rate of \$10 per meal or \$30 per day."

Due to a lack of detailed review of receipts supporting disbursements and credit card charges, the reasonableness and/or allowability of the disbursements could not be determined; thus, Fiscal Court cannot ensure purchases are valid and credit cards are not being abused. Because purchases on credit cards are not sufficiently documented, it is likely the members of the Fiscal Court are unaware of the nature and volume of items purchased with these cards. Meal charges exceed amounts allowable for an individual and meals possibly provided at training sessions were not properly documented.

We recommend the Fiscal Court address the aforementioned issues by:

- The Fiscal Court should require date stamp of all invoices when received and ensure that all invoices are paid within 30 days as required by KRS 65.140.
- The Fiscal Court should require copies of all paid invoices be maintained. All invoices should be for allowable expenses that have been properly approved, paid timely and in compliance with budget and legal requirements.

**MCCRACKEN COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Fiscal Year End June 30, 2014**  
**(Continued)**

**Section II: Findings – Financial Statement Audit (Continued)**

2014-007 Weak Internal Controls Over Credit Card Disbursements Resulted In Late Fees And Potential Misuse (Continued)

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- The Fiscal Court should require all receipts be submitted to support the charges on the credit card bill. Any charges without supporting receipts will be the responsibility of the user to pay.
- All claims should be presented to Fiscal Court for approval in accordance with KRS 68.275.
- Every payment should show evidence of sufficient review and approval before payment.
- Once the credit card statement is received and all receipts related to that statement are attached to the credit card statement, a detailed list of transactions should be included on the claims list presented to the Fiscal Court for approval.
- The Fiscal Court should perform detailed reviews of credit card receipts and bill statements to ensure all purchases are necessary, reasonable, were properly requested and approved, sufficiently documented and recorded.

*County Judge/Executive Response: The County Judge Executive has instructed any employee utilizing county credit card to be issued a PO prior to transaction.*

**Section III: Findings And Questioned Costs - Major Federal Awards Program Audit**

None.

**Section IV: Summary Schedule of Prior Audit Findings**

None.

**CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

**MCCRACKEN COUNTY FISCAL COURT**


**For The Fiscal Year Ended  
June 30, 2014**



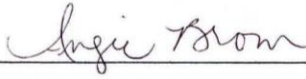
CERTIFICATION OF COMPLIANCE  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM  
MCCRACKEN COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2014

The McCracken County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

A handwritten signature in dark ink, appearing to read "Robert L. Lawrence", is written over a horizontal line.

County Judge/Executive

A handwritten signature in dark ink, appearing to read "Angie Brown", is written over a horizontal line.

County Treasurer

